



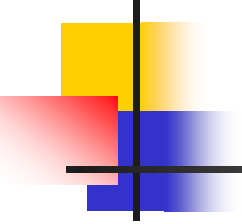
Insurance Market Conditions Fiscal Year 2012

June 2, 2011

Prepared by:
The Risk Management & Tort Defense Division



**Commercial reinsurance rates increased
11% to 15% on average at the
January 1, 2011 renewal.**



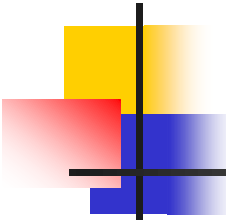
**By comparison, reinsurance rates
increased between 5% and 10%
at the April 1, 2010 renewal.**



Market Factors

- **Upward pricing trends due to recent worldwide property catastrophes are expected.**
- **Shift away from soft pricing conditions.**
What's less clear is the velocity of the upward turn and what might happen when hurricane season begins.
- **Risk managers have grown very uncomfortable about the run-up to July 1 renewals, especially those with big exposures in the mid-Atlantic, mid-west, Texas, and Florida.**
- **Program-specific loss histories will impact rates.**

**State of Montana
Property Loss History
FY03 through FY 10**



| Claims Description | Loss Date | Claim Amount | Amount Paid By State | Amount Paid By Commercial Insurance |
|-------------------------------|------------------|-------------------------|-------------------------------------|--|
| Montana State Prison Fire | 08/06/07 | \$703,080 | \$250,000 | \$453,080 |
| FWP Fire | 12/01/03 | \$546,428 | \$250,000 | \$296,428 |
| FWP Fire | 09/16/07 | \$329,714 | \$250,000 | \$79,714 |
| National Guard Flood | 05/01/08 | \$2,363,199 | \$250,000 | \$2,113,199 |
| Dillon Earthquake | 07/25/05 | \$1,345,736 | \$250,000 | \$1,095,736 |
| DPHHS Boiler | 01/25/06 | \$352,808 | \$250,000 | \$102,808 |
| MSU Bozeman Fire | 07/15/06 | \$598,829 | \$250,000 | \$348,829 |
| MSU Bozeman Hail | 07/22/08 | \$1,248,999 | \$250,000 | \$998,999 |
| MSU Northern Hail | 06/20/03 | \$1,260,076 | \$250,000 | \$1,010,076 |
| MSU Bozeman Hail | 06/30/10 | \$3,500,000 | \$500,000 | \$3,000,000 |
| Total | | \$12,248,869 | 2,750,000 | \$9,498,869 |



Looking Ahead

- Capital constraints have improved slightly but the financial market outlook is uncertain throughout 2012. Such uncertainty may impair investment assets.
- An upward pricing trend in property catastrophe trends and the impact of a new risk model have created a nervous energy about what may play out.
- The insurance industry's ability to secure additional capacity will depend on specific companies and lines of business.

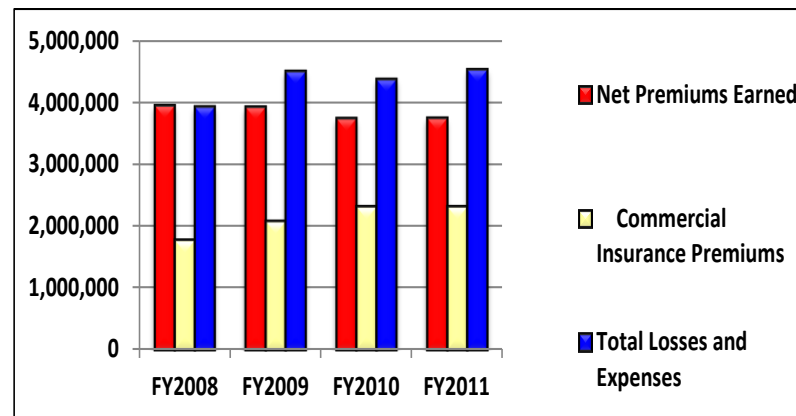
Looking Ahead (cont'd)

State's Commercial Insurance Premiums as a % of Net Premiums Earned Have Increased

Property Insurance Program

| | FY2008 | FY2009 | FY2010 | FY2011 |
|-------------------------------|-----------|-----------|-----------|-----------|
| (1) Net Premiums Earned | 3,953,568 | 3,929,251 | 3,747,417 | 3,750,054 |
| (2) Losses Paid | 1,904,179 | 2,047,194 | 1,759,655 | 1,869,255 |
| (3) Loss Expenses Paid | 45,292 | 122,504 | 26,146 | 61,563 |
| Operations | 206,745 | 253,873 | 276,008 | 283,656 |
| Commercial Insurance Premiums | 1,772,298 | 2,078,008 | 2,312,381 | 2,312,381 |
| Total Losses and Expenses | 3,928,514 | 4,501,579 | 4,374,191 | 4,526,856 |

- (1) Net Premiums Earned = Budgeted premium (SABHRS org summary) - insurance premium discounts
- (2) Losses Incurred = Loss payments (SABHRS Trial Balance Report), Prospective Years based on state's 6/30/10 actuarial re
- (3) Loss Expenses Incurred = Adjusters fees + legal fees (CLAIMS database property/casualty statistics report) + court costs.





What does this mean for your agency?

- No rate impact during the current biennium.
- Potential rate impact next biennium.